

USDA Outlook Forum

February 25, 2005

Sugar and Sweeteners Panel

“2005 Market Outlook: Which Avenue for Sugar Trade Reform –
WTO, Regional or Bilateral?”

*Sugar Trade Agreements and Global
Liberalization: U.S. Producers' Perspective*

Jack Roney

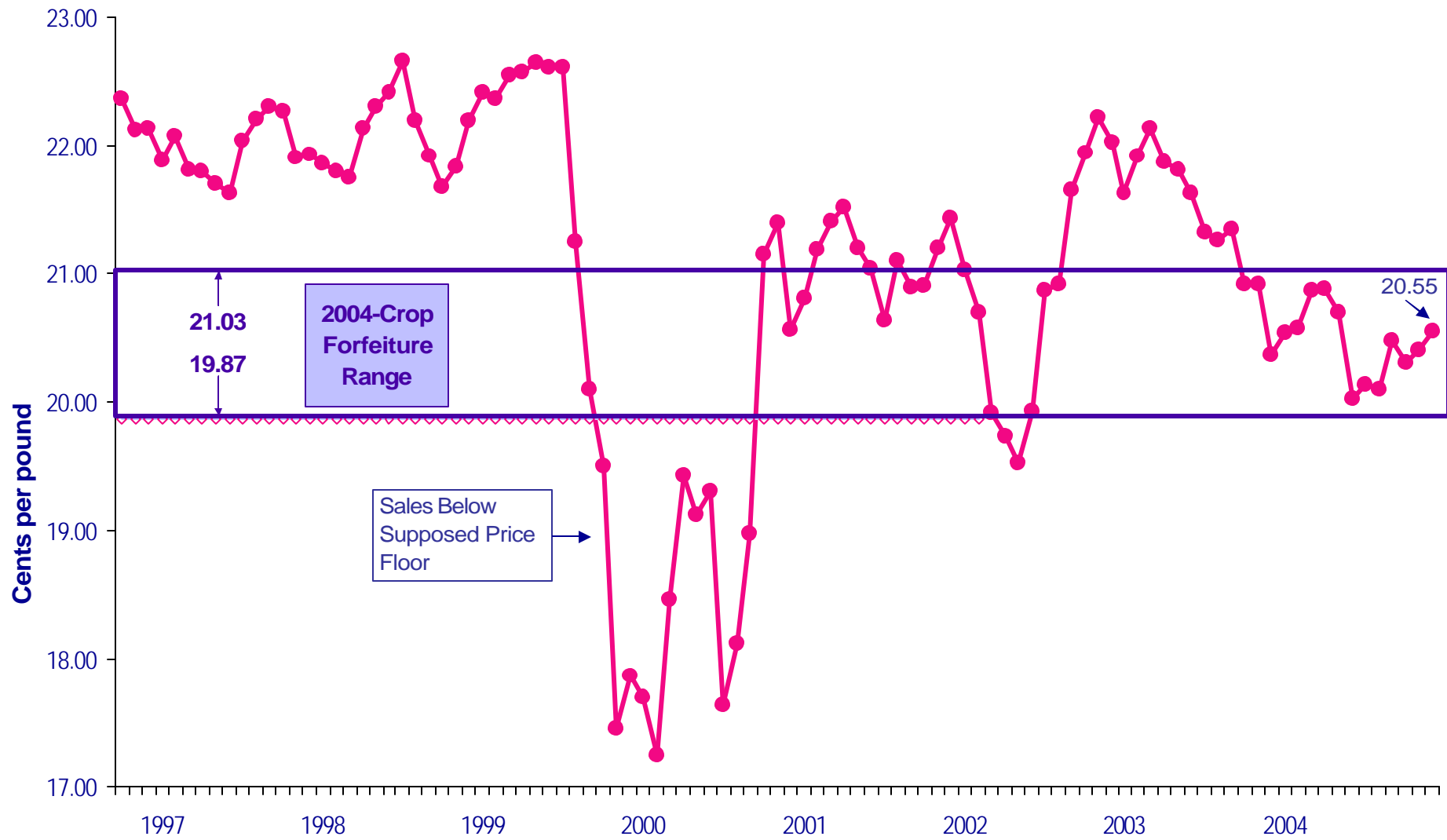
Director of Economics and Policy Analysis

American Sugar Alliance

U.S. Sugar Policy & Trade Liberalization

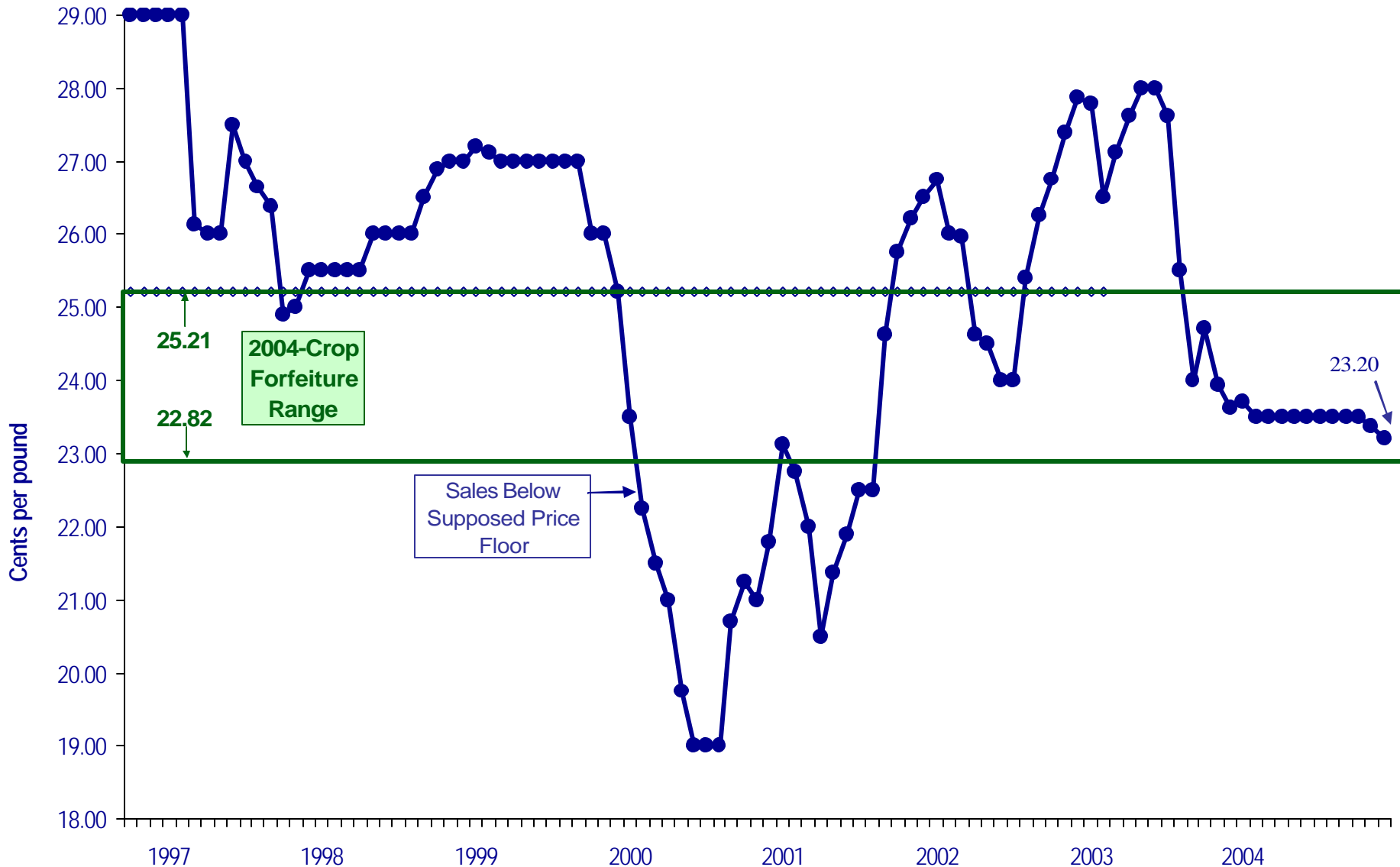
- Current Situation
 - Coping with lower prices, declining consumption
 - Increasing efficiency
 - Oversupplied domestic market
- Trade Liberalization
 - **WTO:** Opportunity, if done right – genuine progress on global sugar subsidies
 - Bilateral and Regional Free Trade Agreements (**FTAs**):
All risk, no benefit for U.S. sugar industry – more unneeded imports without addressing foreign subsidies
- U.S. Sugar Industry Position: Reserve sugar for WTO

U.S. Raw Cane Sugar Prices, 1996-2004



Source: USDA. Raw cane sugar, nearby #14 contract, delivered New York. Monthly average prices October 1996 - December 2004.

U.S. Wholesale Refined Beet Sugar Prices, 1996-2004



Source: USDA. Wholesale refined beet sugar, Midwest markets. Monthly average prices October 1996 - December 2004.

28 Permanent Sugar Mill and Refinery Closures Since 1996

BEET CLOSURES

Spreckels Sugar, Manteca
California, 1996

Holly Sugar, Hamilton City
California, 1996

Western Sugar, Mitchell
Nebraska, 1996

Great Lakes Sugar, Fremont
Ohio, 1996

Holly Sugar, Hereford
Texas, 1998

Holly Sugar, Tracy
California, 2000

Holly Sugar, Woodland
California, 2000

Western Sugar, Bayard
Nebraska, 2002

Pacific Northwest, Moses Lake
Washington, 2003

Amalgamated, Nyssa
Oregon, 2005*

CANE CLOSURES

Ka'u Agribusiness
Hawaii, 1996

Waialua Sugar
Hawaii, 1996

McBryde Sugar
Hawaii, 1996

Breaux Bridge Sugar
Louisiana, 1998

Pioneer Mill Company
Hawaii, 1999

Talisman Sugar Company
Florida, 1999

Amfac Sugar, Kekaha
Hawaii, 2000

Amfac Sugar, Lihue
Hawaii, 2000

Hawaiian Commercial & Sugar, Paia
Hawaii, 2000

Evan Hall Sugar Cooperative
Louisiana, 2001

Caldwell Sugar Cooperative
Louisiana, 2001

Glenwood Sugar Cooperative
Louisiana, 2003

New Iberia Sugar Cooperative
Louisiana, 2005

Jeanerette Sugar Company
Louisiana, 2005

CANE REFINERY CLOSURES

Aiea, C & H
Hawaii, 1996

Everglades, Imperial
Florida, 1999

Sugarland, Imperial
Texas, 2003

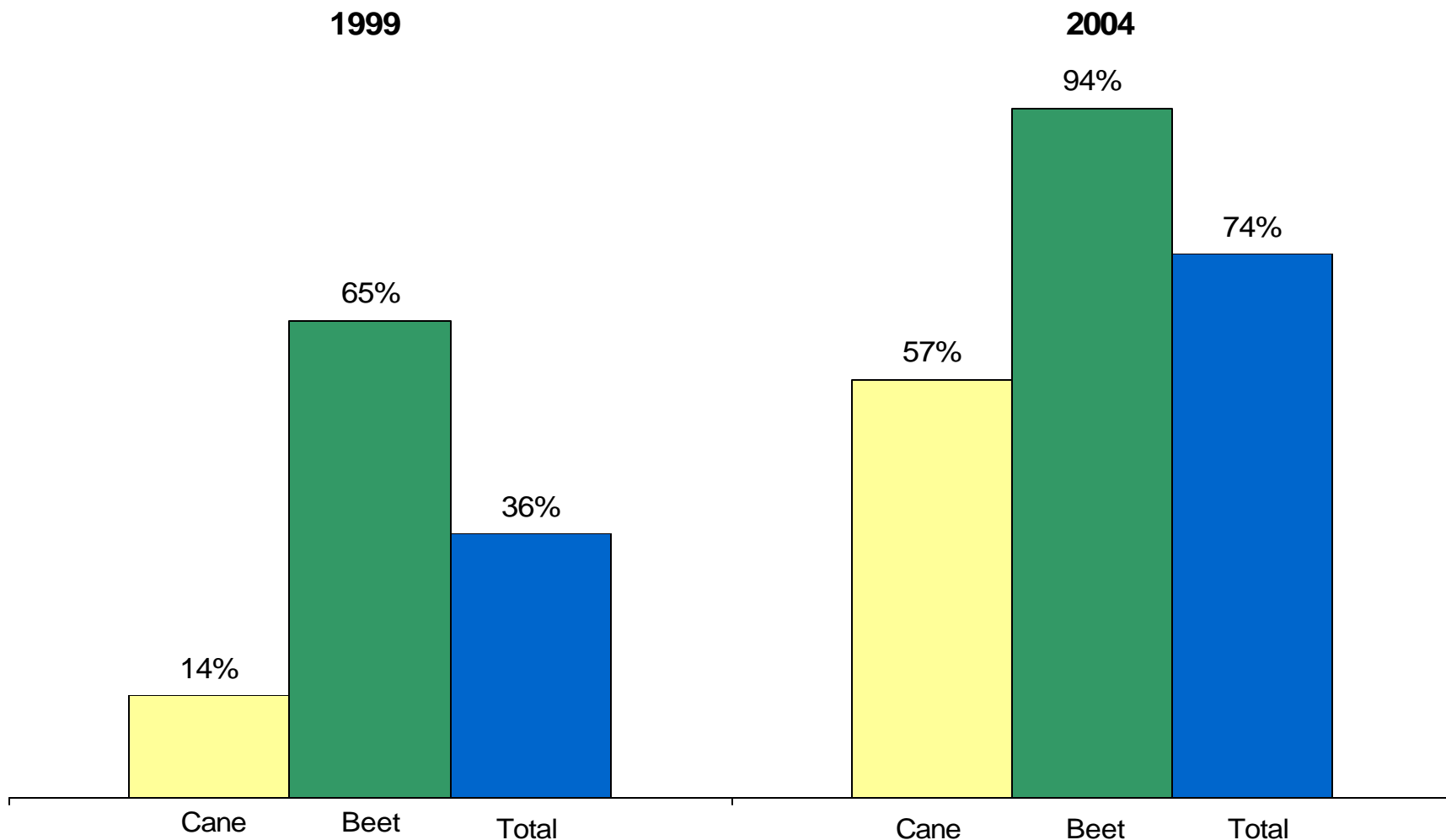
Brooklyn, Domino
New York, 2004

Note: In 2005, 25 beet factories, 22 raw cane mills, and 7 cane refineries remain in operation.

*Suspended operations for 2005.

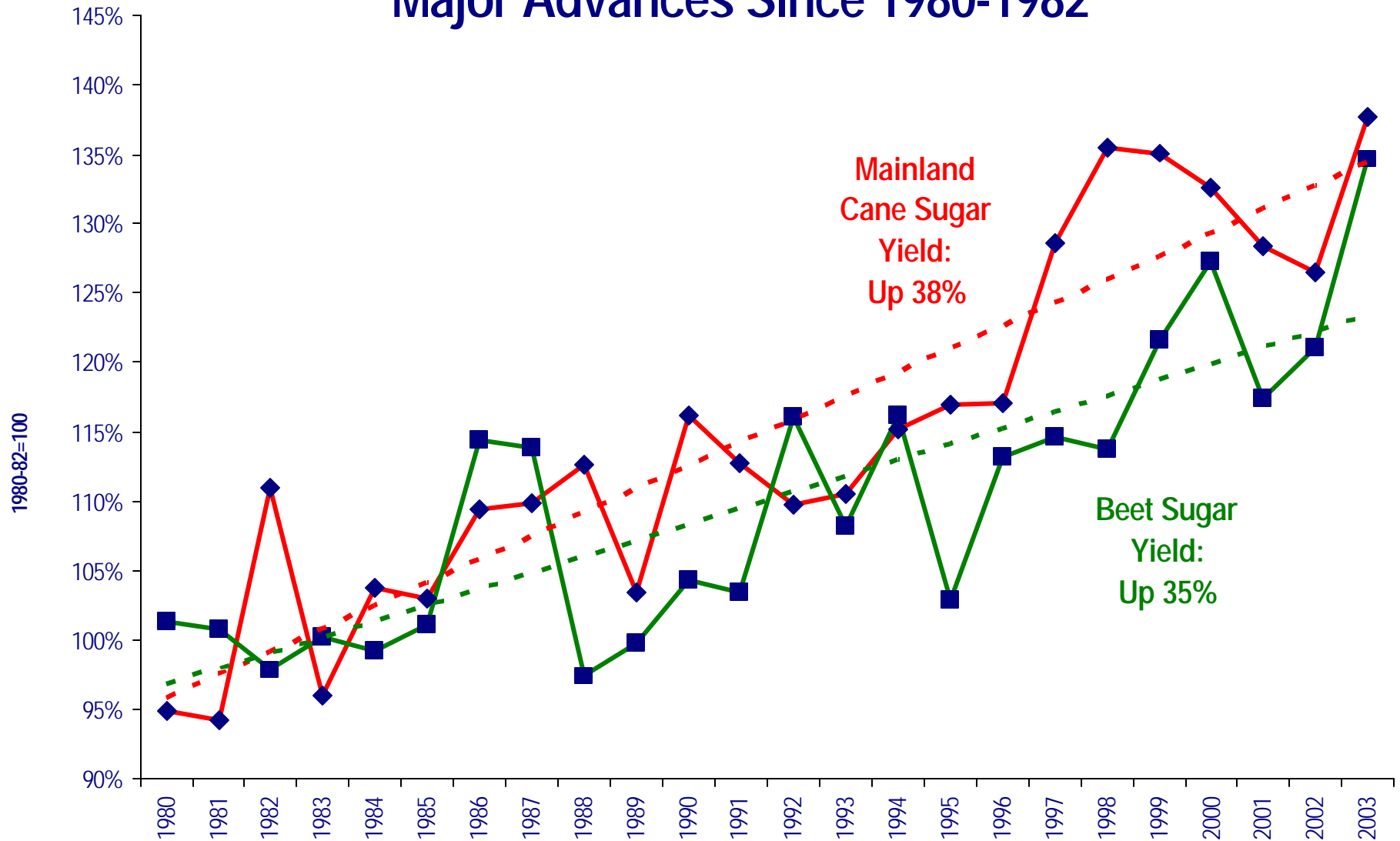
U.S. Refined Sugar Sellers: Grower-Owned Share More Than Doubled in Five Years

(% of production capacity)



Source: Production capacity estimates from McKeamy-Favell Company, Inc. American Sugar Alliance, October 2004.

Sugar Yield Per Acre, Major Advances Since 1980-1982



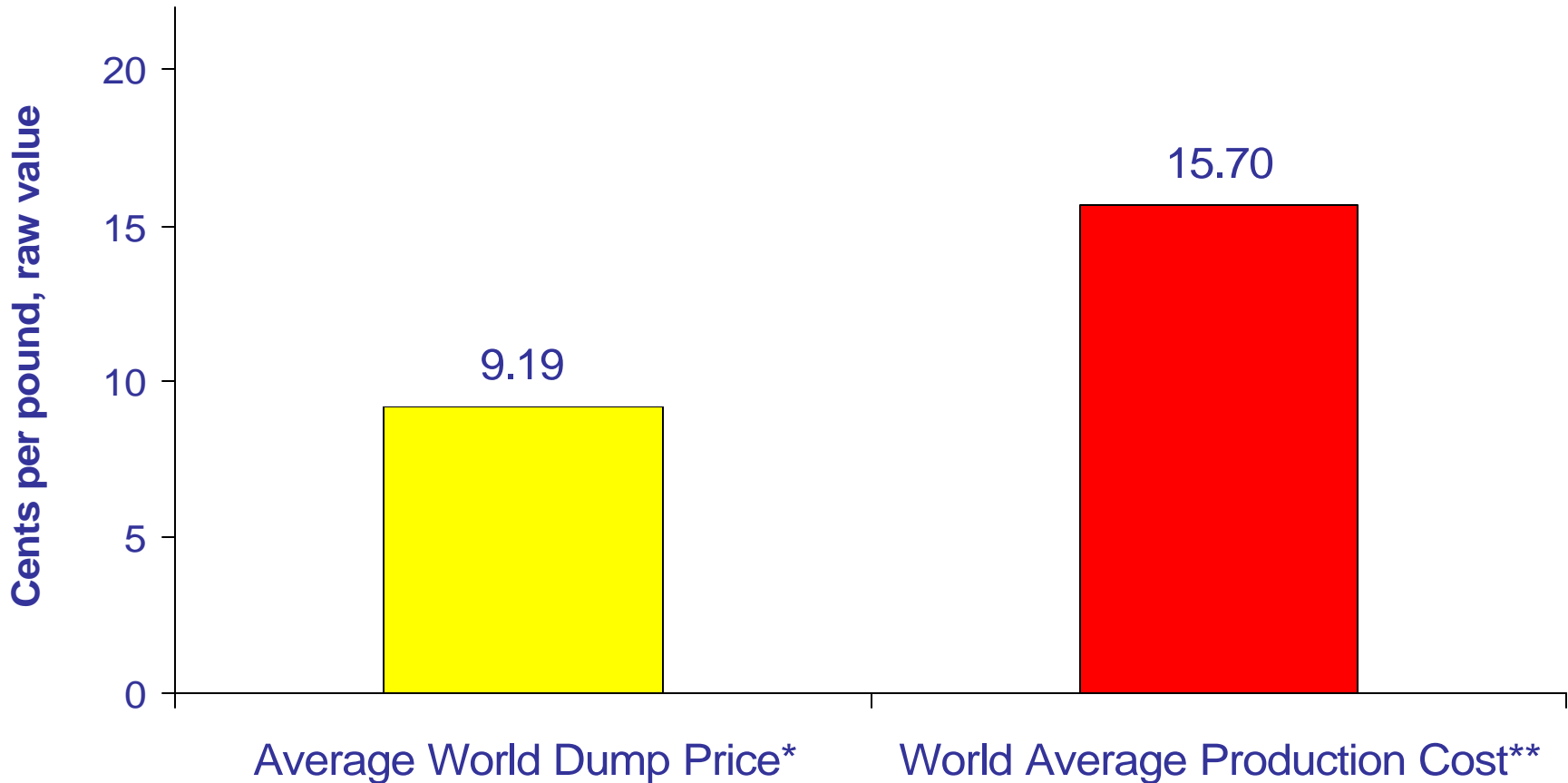
Data source: "Crop Production," National Agricultural Statistics Service; "Sweetener Market Data," Farm Service Agency, USDA; WASDE, USDA, Linear trendlines.

U.S. Cost of Production Rank Among World Sweetener Producers, 1997/98 – 2002/03

	U.S. Rank (Lowest = 1)	Number of Producing Countries/Regions
Beet Sugar	3	41
Cane Sugar	26	64

Source: “LMC Worldwide Survey of Sugar and Corn Sweetener Production Costs: 2003 Report,”
LMC International Ltd., Oxford, England, June 2004.

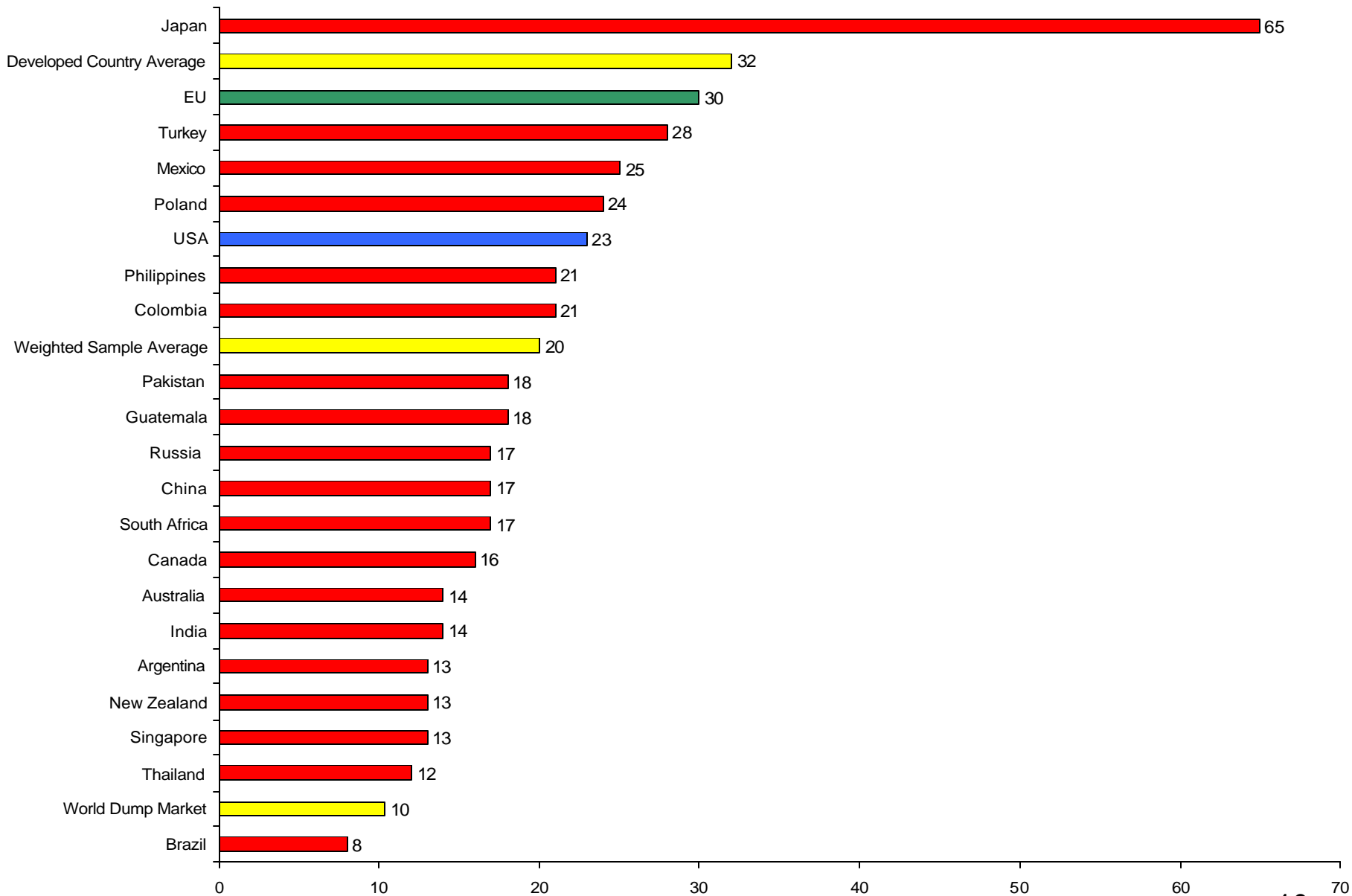
World Sugar Dump Market Price: Barely More Than Half the World Average Cost of Producing Sugar (20-Year Average, 1983/84 - 2002/03)



*New York contract #11, f.o.b. Caribbean ports. Source: USDA.

**Beet and cane sugar weighted average, raw value. Source: "The LMC Worldwide Survey of Sugar and HFCS Production Costs: The 2003 Report," LMC International, Ltd., Oxford, England, December 2003.

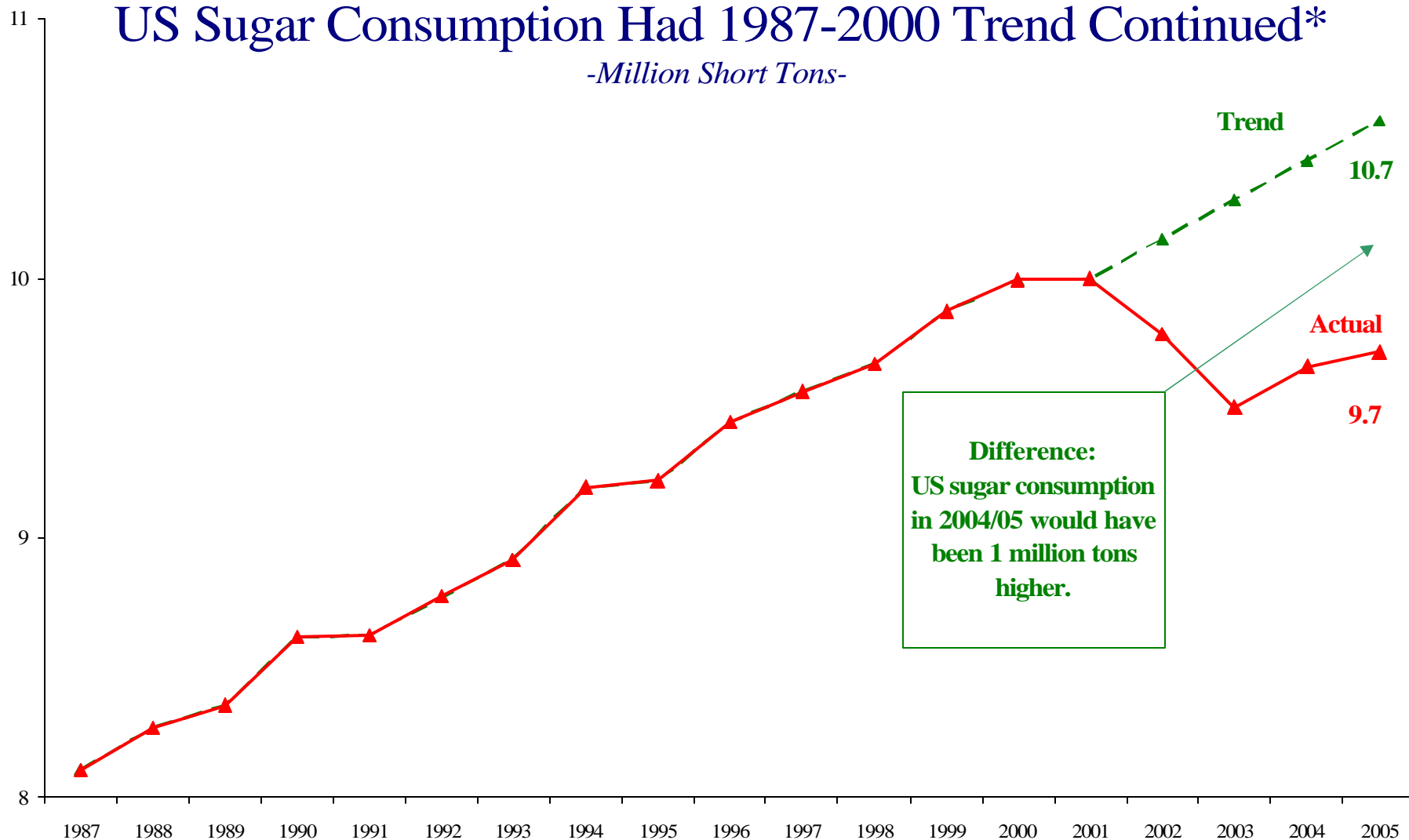
Actual Wholesale Refined Sugar Prices Average Double the World Dump Market Price; United States: 28% Below Developed-Country Average (Cents/lb, 2000-2002 Avg.)



Data Sources: World refined price, London futures contract #5, USDA; all others, LMC International, April 2003 . Countries shown represent 77% of global sugar production, 76% of exports, and 70% of consumption.

US Sugar Consumption Had 1987-2000 Trend Continued*

-Million Short Tons-



*U.S. sugar deliveries for domestic food use.

1987-2000 average annual growth: +151,000 tons;

2001-2005 average annual growth: -56,000 tons.

Note: U.S. sugar industry generic promotion program in place 1986-1995.

Source: USDA/ERS and WASDE, January 2005;
ASA trend projection

U.S. Sugar Consumption

1997-2000 steady growth reversed by:

- Slow economic growth
 - Has since picked-up
- Low-carb diet craze
 - Seems to have run its course
- Increased imports of sugar-containing products
 - Related more to low foreign labor costs than to sugar-ingredient prices

U.S. Sugar Market: Prices and Consumption

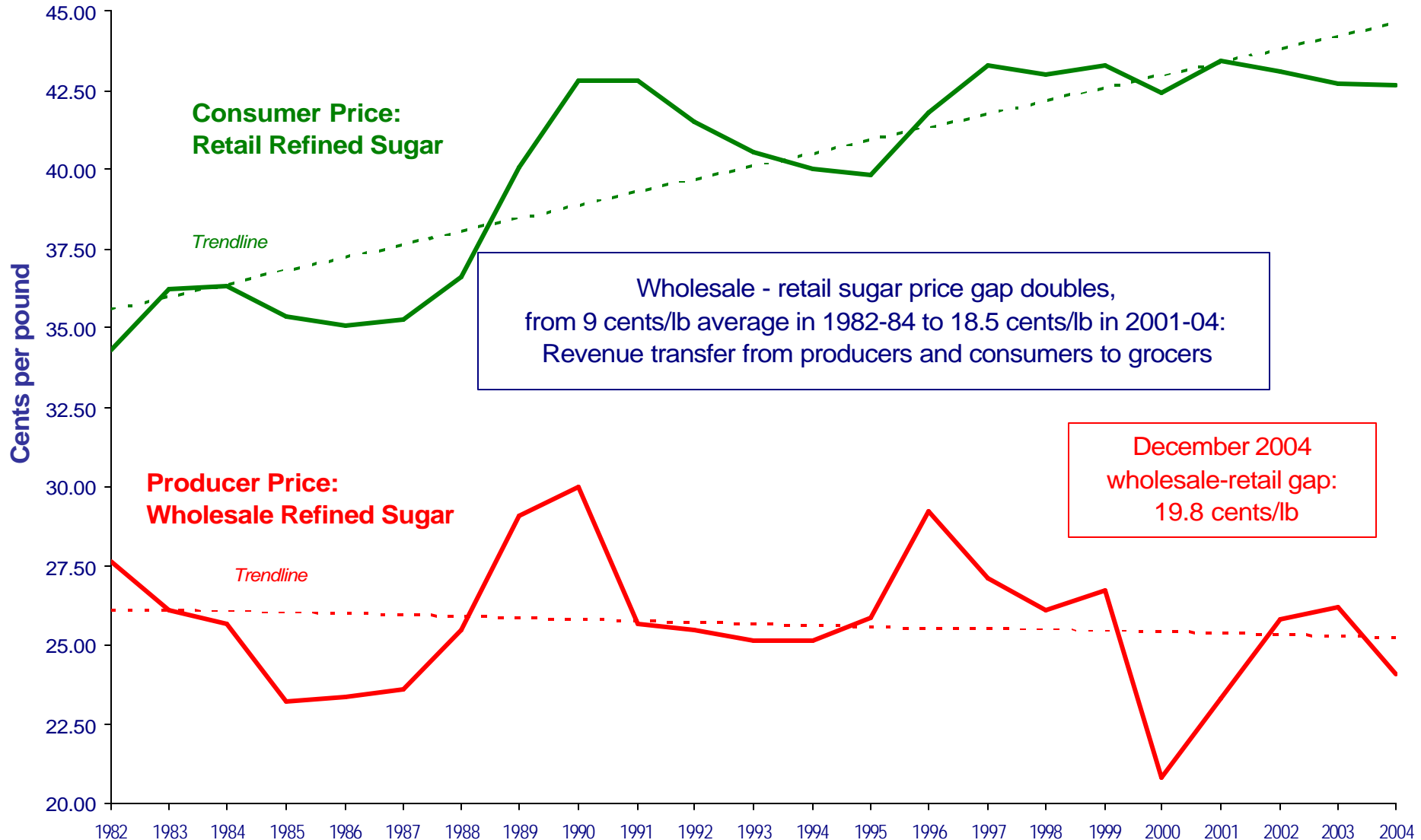
U.S. wholesale refined sugar prices in 2004:

- Down 23% from 1990
- Down 20% from 1996
- Down 11% from 1993

Why no consumption boost from lower producer prices?

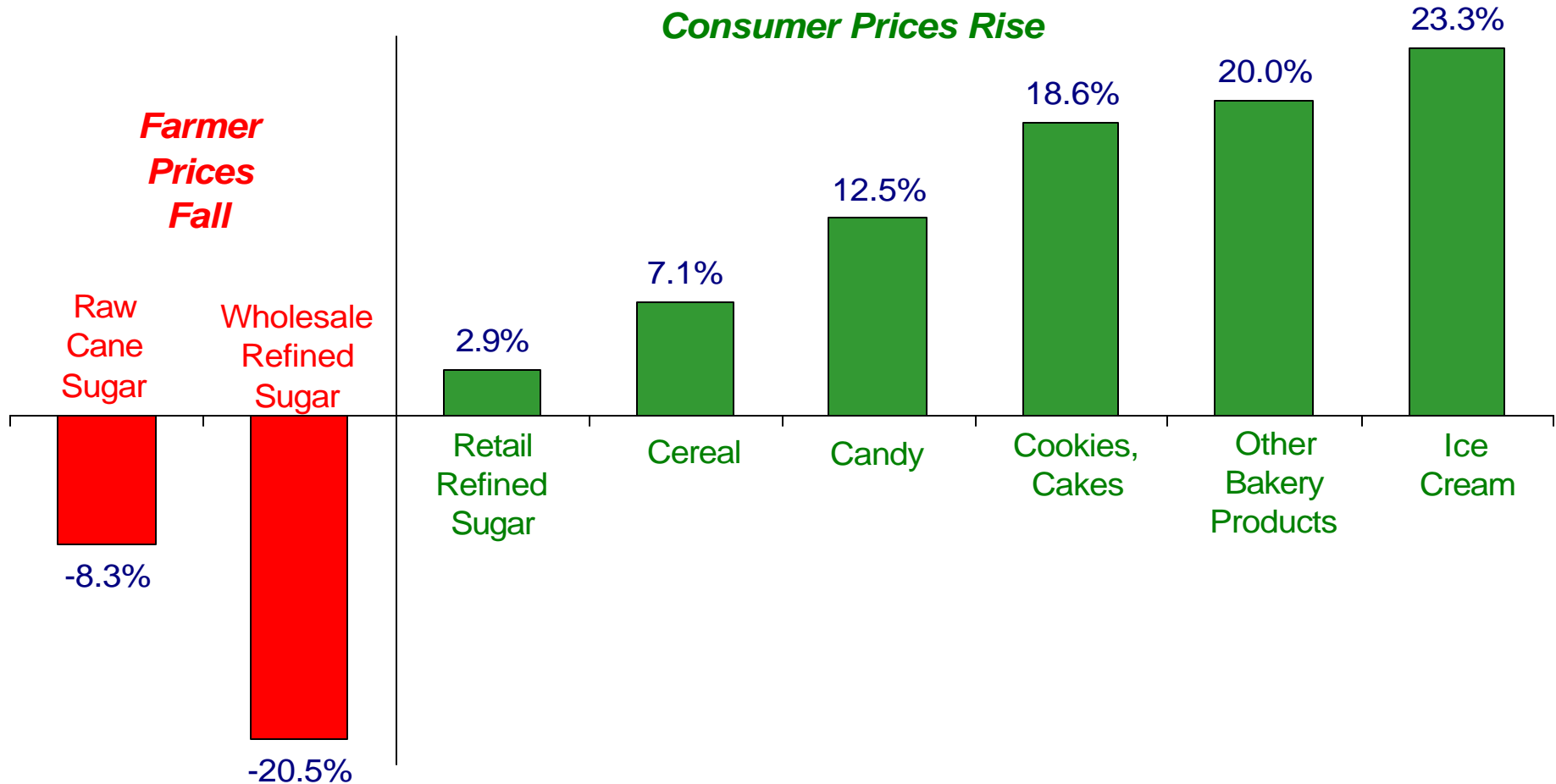
- Consumer prices have *not* fallen—No passthrough by food manufactures, retailers:
 - Retail sugar price flat—wholesale-retail gap doubles
 - Sweetened-product prices continue to rise

Wholesale-Retail Sugar Price Gap More than Doubles: No Passthrough of Lower Producer Prices to Consumers (1982-2004)



Sources: USDA, BLS. Wholesale refined beet sugar, Midwest markets; U.S. retail refined sugar. Annual average prices 1982-2004. Linear trendlines.

**From 1996 through 2004:
Farmer Prices for Sugar Fall,
Consumer Prices for Sugar and Sweetened Products Rise***



*Change in prices from 1996 to December 2004 Raw cane: Duty-free paid, New York. Wholesale refined beet: Midwest markets. Retail prices: BLS indices.

Data source: USDA, BLS indices.

U.S. Sugar Production, Allocations, and Blocked Stocks 2003/04 and 2004/05

	2003/04			2004/05			Two-Year Totals
	OAQ ¹	Production	Blocked Stocks: OAQ Minus Production ²	OAQ	Production	Blocked Stocks: OAQ Minus Production ²	
Beet sugar	4,484	4,692	-208	4,402	4,699	-297	-505
Cane sugar							
FL	1,949	2,154	-205	1,816	1,689	127	-78
LA	1,404	1,377	27	1,405	1,290	115	142
HI	256	251	5	319	259	60	65
TX	157	175	-18	158	180	-22	-40
Cane total	3,766	3,957	-223	3,698	3,418	-22 ³	-118 ³
TOTAL	8,250	8,649	-431	8,100	8,117	-319 ³	-623 ³

Data source: USDA -- WASDE, February 9, 2005

¹ Reflects July 22, 2004, reassignment of cane sugar allocations.

² Negative figures = blocked stocks (stored at producers' expense)

³ Sum of blocked stocks above.

U.S. Sugar Industry and Trade Liberalization

Open market: Already world's 4th largest net importer of sugar

- But badly oversupplied

Efficient: Willing to compete against foreign farmers absent government subsidies, programs

- But subsidies distort, depress world sugar price
 - Only way to address global subsidy problem:
Globally, in WTO
 - All countries: Developed & developing
 - All programs: Direct & indirect

U.S. Sugar Industry and Trade Liberalization

Support comprehensive, multilateral negotiations on sugar in WTO: Sector-specific approach

- Avoid excessive specialized treatment for developing countries: 75% of world sugar production and exports
 - Differentiate among developing countries
- Address all forms of subsidy:
 - Transparent: Domestic supports, export subsidies, market access
 - Non-transparent: State ownership, income supports, debt financing, indirect export subsidies, ethanol cross-subsidization, currency manipulation, etc.

Summary of Support for Sugar Industry in Selected Countries, 2002 -- Direct Supports

	Australia	Brazil	China	Colombia	Cuba	EU	Guatemala	India	Japan	Mexico	Russia	S. Africa	Thailand	Turkey
TRANSPARENT SUPPORT														
Domestic Market Controls														
Production Quotas						✓								✓
Guaranteed Support Prices			✓			✓		✓	✓				✓	✓
Supply Controls								✓						
Market Sharing/Sales Quotas				✓			✓			✓		✓	✓	
Import Controls														
Import Quota			✓								✓	✓		
Import Tariff		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Import Licences			✓										✓	✓
Quality Restrictions							✓		✓					
Export Support														
Export Subsidies				✓		✓		✓						✓
Import Tariff Level (refined, a.v. or equivalent)	0%	18%	75%	20%	10%	164%	20%	68%	71%	172%	50%	46%	96%	138%

Review of sugar policies in major sugar industries: Transparent and non-transparent or indirect policies

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Summary of Support for Sugar Industry in Selected Countries, 2002 -- Indirect Supports

	Australia	Brazil	China	Colombia	Cuba	EU	Guatemala	India	Japan	Mexico	Russia	S. Africa	Thailand	Turkey
NON-TRANSPARENT SUPPORT														
Direct Financial Aid														
State Ownership			✓		✓					✓				✓
Income Support	✓	✓				✓			✓				✓	
Debt Financing	✓	✓								✓	✓	✓	✓	
Input Subsidies								✓		✓	✓	✓	✓	✓
Indirect Long Term Support														
Single Desk Selling	✓			✓	✓							✓		
R&D Subsidies								✓				✓		✓
Efficiency Programs	✓													
Ethanol Programs/Subsidies		✓		✓		✓							✓	
Consumer Demand Support			✓		✓					✓				✓
Domestic Wholesale Sugar Price (cents/lb)	13.5	8.1	16.9	21.1	0.1	30.4	18	12.7	65.4	25.6	16.5	17.3	11.8	27.9

Review of sugar policies in major sugar industries: Transparent and non-transparent or indirect policies

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U.S. Sugar Industry and Trade Liberalization

FTA dangers: Force unneeded foreign sugar onto oversupplied U.S. market, without addressing foreign subsidies, without correcting global sugar distortions

- Sugar market-access mandates excluded from virtually every FTA ever done around the world:
 - EU-South Africa; EU-Mexico; within Mercosur; South Africa-Mercosur; within CAFTA; Mexico-Central America; U.S.-Canada; U.S.-Australia; etc
 - Troubled exceptions: U.S.-Mexico; U.S.-CAFTA

CAFTA dangers

- Short run:
 - Triggering off marketing allotments—there is no “cushion”—cascade of blocked stocks onto U.S. market
- Long run:
 - Tip of iceberg: 21 sugar-exporting countries lined up behind CAFTA
 - 25 million metric tons of exports—nearly triple U.S. consumption

U.S. Sugar Industry and Trade Liberalization

CAFTA: The fictitious “cushion”:

- Congress in 2002 Farm Bill: WTO, NAFTA concessions enough—reserve rest of U.S. market for efficient U.S. producers; no-cost policy—guarantee imports but restrict domestic sales
 - WTO (41 countries): 1.256 mst
 - NAFTA (Mexico): $\frac{+ .276 \text{ mst (of surplus production)}}{1.532 \text{ mst}}$
 - If imports > 1.532 mst = marketing allotments triggered off, market oversupplied, no-cost operation impossible
- The 1.532-mst import amount was fully committed, before the CAFTA concession of another 120,000 st

CAFTA & D.R.-FTA Sugar Import Access

(Metric Tons)

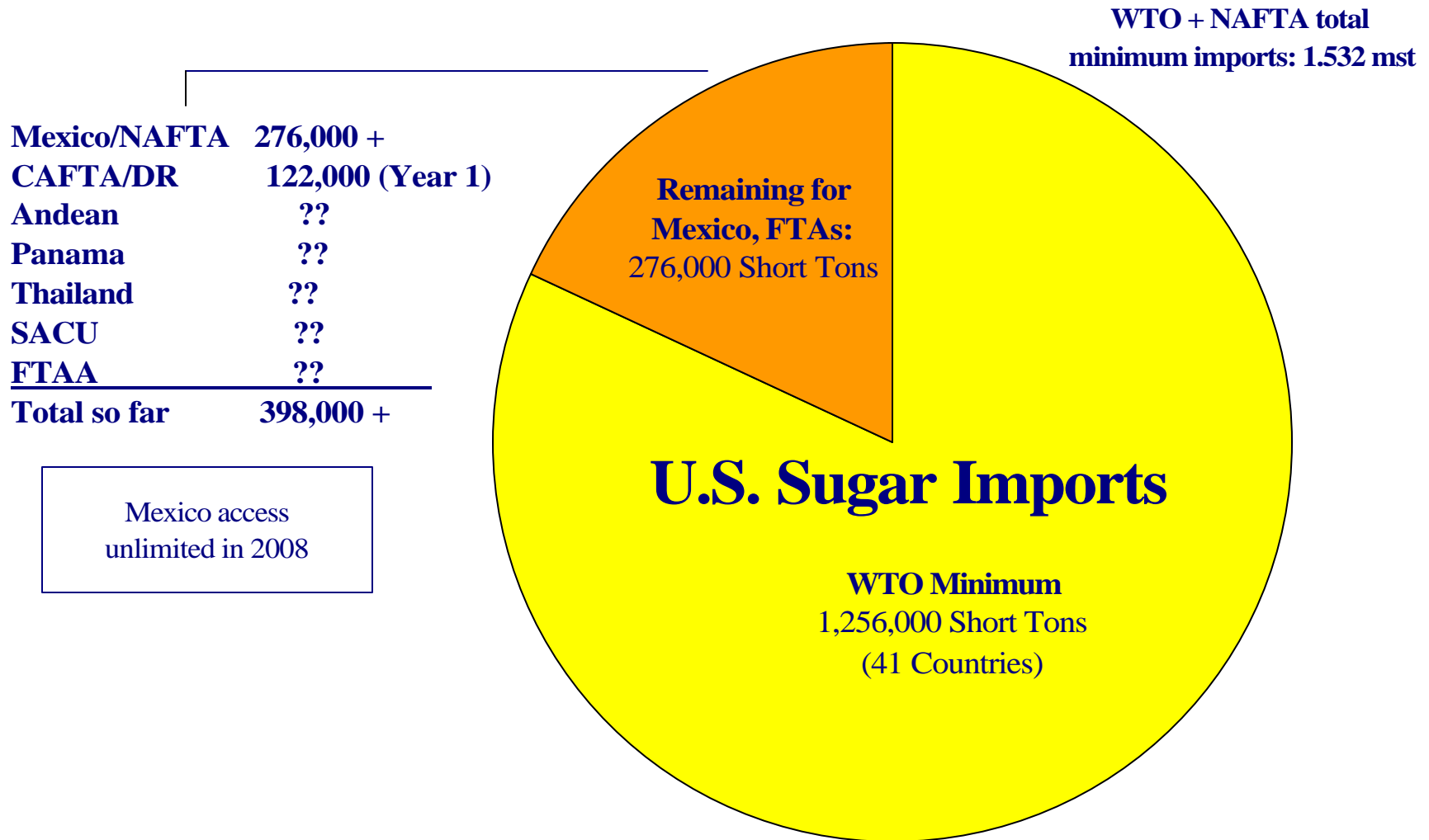
	2003/04 quota	Increase year 1	Increase year 15*	Total year 15	Annual increase year 16 onward
Guatemala	50,546	32,000	49,820	100,366	+ 940
El Salvador	27,379	24,000	36,040	63,419	+ 680
Nicaragua	22,114	22,000	28,160	50,274	+ 440
Honduras	10,530	8,000	10,240	20,770	+ 160
Costa Rica**	15,796	13,000	16,080	31,876	+ 220
TOTAL	126,365	99,000	140,340	266,705	2,440
Dominican Republic	185,335	10,000	12,800	198,135	+200

*CAFTA increases of varying increments during years 2-15; total CAFTA increase is 111% of 2003/04 quota share.

** Increase includes Costa Rica's additional TRQ of 2,000 mt of organic sugar.

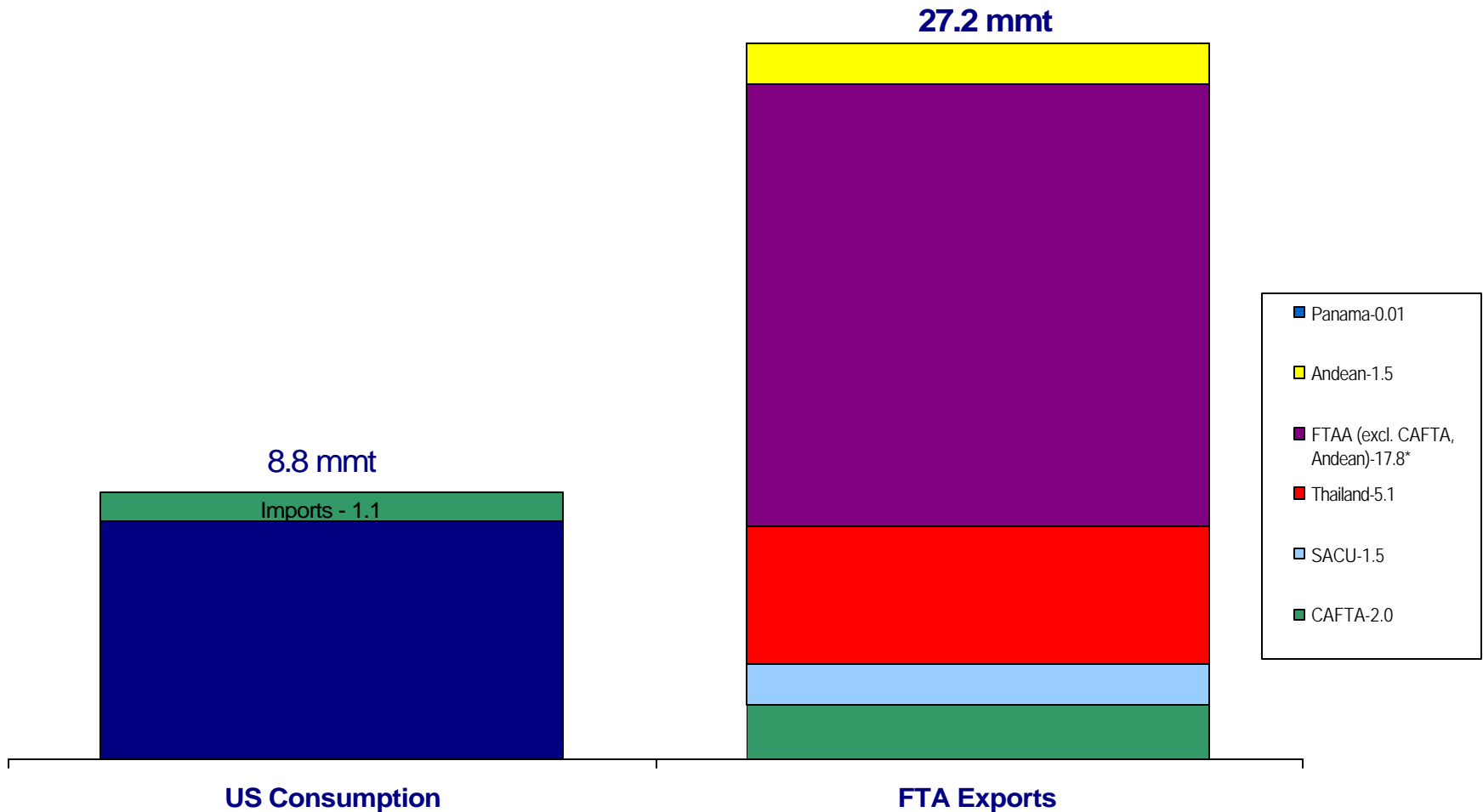
No-Cost US Sugar Policy Impossible if Imports Exceed 1.532 Million Short Tons*

-- Available for Mexico and all FTAs: 276,000 ST; Committed So Far: 398,000 ST



* Marketing allotments triggered off; surplus sugar floods market; prices drop.

Potential FTA Country Sugar Exports: Triple U.S. Sugar Consumption (Million metric tons, 2002-04 average)



*Argentina, Australia, Barbados, Belize, Bolivia, Brazil, Canada, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, South Africa, St. Kitts & Nevis, Swaziland, Thailand, Trinidad & Tobago, Uruguay

Source: USDA/FAS November 2004

U.S. Sugar Industry and Trade Liberalization

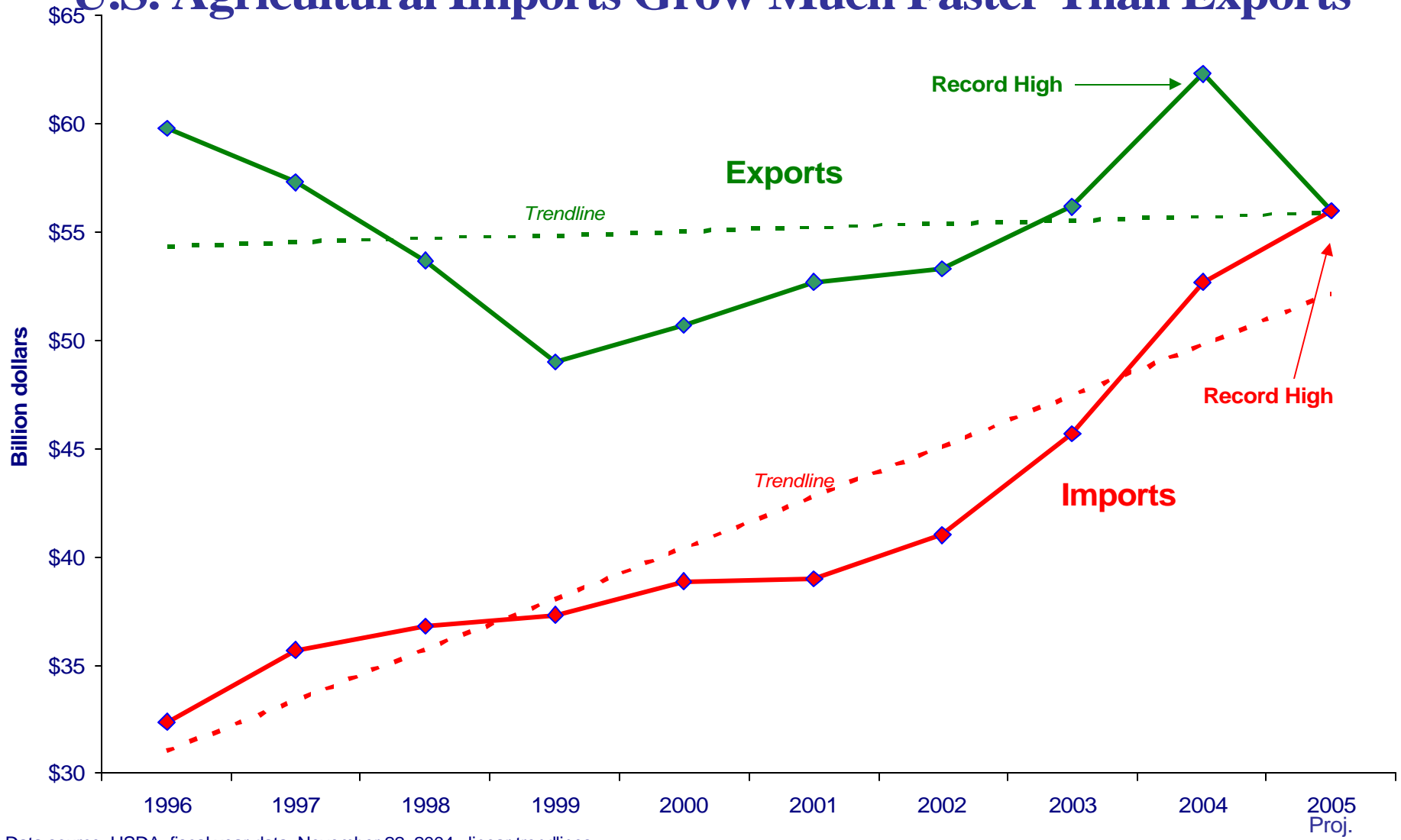
Do trade agreements deliver what proponents promise? Despite Uruguay Round Agreement on Agriculture, NAFTA, 1996 Farm Bill commodity price reductions:

- U.S. ag exports flat;
- U.S. ag imports skyrocketing;
- U.S. ag trade surplus disappears

CAFTA: USITC predicts *increased* U.S. trade *deficit* with region after 15 years

- Worth sacrificing the U.S. sugar industry for?
 - 146,000 jobs in 19 states

Since NAFTA, URAA, 1996 Farm Bill*: U.S. Agricultural Imports Grow Much Faster Than Exports



Data source: USDA, fiscal year data, November 22, 2004, linear trendlines.

* NAFTA implemented January 1994; Uruguay Round Agreement on Agriculture implemented January 1995; 1996 Farm Bill reduced U.S. commodity export prices.

Despite NAFTA, URAA, 1996 Farm Bill*: U.S. Agricultural Trade Surplus Disappears



Data source: USDA, fiscal year data, November 22, 2004; exports minus imports.

*NAFTA implemented January 1994; Uruguay Round Agreement on Agriculture implemented January 1995; 1996 Farm Bill reduced U.S. commodity export prices.

U.S. Sugar Industry and Trade Liberalization

Conclusion

Which avenue for sugar trade reform?

- Right way: WTO -- Comprehensive, multilateral negotiation on global subsidies
- Wrong way: FTA -- Piecemeal market concessions without addressing foreign subsidies